

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
December 13, 2017**

Market Street Apartments, located at 1551 Market Street in Redding, requested and is being recommended for a reservation of \$797,028 in annual federal tax credits to finance the new construction of 56 units of housing serving tenants with rents affordable to households earning 35%-60% of area median income (AMI). The project will be developed by K2 Market Street Development, LLC and will be located in Senate District 1 and Assembly District 1.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers. The project financing includes state funding from the Affordable Housing Sustainable Communities (AHSC) program of HCD.

Project Number	CA-17-817	
Project Name	Market Street Apartments	
Site Address:	1551 Market Street	
	Redding, CA 96001	County: Shasta
Census Tract:	101.00	

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$797,028	\$0
Recommended:	\$797,028	\$0

Applicant Information

Applicant:	Downtown Redding Investors, LP
Contact:	Allen Knott
Address:	1011 Parkview Avenue, Ste. A
	Redding, CA 96001
Phone:	(530) 244-0595
Email:	aknott@k2-development.com

General Partner(s) or Principal Owner(s):	Downtown Redding Investors, LLC Community Revitalization and Development Corp.
General Partner Type:	Joint Venture
Parent Company(ies):	Downtown Redding Investors, LLC Community Revitalization and Development Corp.
Developer:	K2 Market Street Development, LLC
Investor/Consultant:	Red Stone Equity Partners
Management Agent:	MBS Property Management, Inc.

Project Information

Construction Type:	New Construction
Total # Residential Buildings:	1
Total # of Units:	82
No. & % of Tax Credit Units:	56 69.14%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Vouchers (8 Units / 14%)
HCD MHP Funding:	No
Utility Allowance:	CUAC
55-Year Use/Affordability:	Yes
Number of Units @ or below 35% of area median income:	11
Number of Units @ or below 50% of area median income:	44
Number of Units @ or below 60% of area median income:	1

Bond Information

Issuer:	California Housing Finance Agency
Expected Date of Issuance:	June 1, 2018
Credit Enhancement:	None

Information

Housing Type:	Non-Targeted
Geographic Area:	Capital and Northern Region
TCAC Project Analyst:	Carmen Doonan

Unit Mix

2 SRO/Studio Units
15 1-Bedroom Units
47 2-Bedroom Units
18 3-Bedroom Units
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82 Total Units

Unit Type & Number	2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
4 1 Bedroom	35%	35%	\$406
1 1 Bedroom	40%	40%	\$464
5 1 Bedroom	50%	50%	\$580
3 2 Bedrooms	35%	35%	\$487
13 2 Bedrooms	40%	40%	\$557
16 2 Bedrooms	50%	50%	\$696
1 3 Bedrooms	35%	35%	\$562
3 3 Bedrooms	35%	35%	\$562
2 3 Bedrooms	40%	40%	\$643
7 3 Bedrooms	50%	50%	\$803
1 3 Bedrooms	60%	60%	\$964
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$0
2 SRO/Studio	Market Rate Unit	Market Rate Unit	\$811
5 1 Bedroom	Market Rate Unit	Market Rate Unit	\$851
15 2 Bedrooms	Market Rate Unit	Market Rate Unit	\$1,041
3 3 Bedrooms	Market Rate Unit	Market Rate Unit	\$1,203

Projected Lifetime Rent Benefit: \$16,701,300

Project Cost Summary at Application

Land and Acquisition	\$1,935,268
Construction Costs	\$20,939,212
Rehabilitation Costs	\$0
Construction Contingency	\$2,093,921
Relocation	\$0
Architectural/Engineering	\$870,871
Const. Interest, Perm. Financing	\$996,213
Legal Fees, Appraisals	\$285,453
Reserves	\$151,142
Other Costs	\$904,602
Developer Fee	\$2,000,000
Commercial Costs	\$936,092
Total	\$31,112,774

Project Financing

Estimated Total Project Cost:	\$31,112,774
Estimated Residential Project Cost:	\$30,176,682
Estimated Commercial Project Cost	\$936,092

Residential

Construction Cost Per Square Foot:	\$262
Per Unit Cost:	\$368,008
True Cash Per Unit Cost*:	\$352,671

Construction Financing

Source	Amount
Citi Community Capital	\$18,630,924
City of Redding	\$4,800,000
City of Redding - AHSC	\$5,300,000
Deferred Developer Fee	\$2,000,000
Tax Credit Equity	\$381,850

Permanent Financing

Source	Amount
Residential Perm	\$2,865,798
Retail Perm	\$2,285,185
CalHFA Gap Loan	\$1,120,000
City of Redding	\$4,800,000
City of Redding - AHSC	\$5,300,000
HCD	\$5,873,372
Deferred Developer Fee	\$1,296,653
Tax Credit Equity	\$7,571,766
TOTAL	\$31,112,774

*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

Determination of Credit Amount(s)

Requested Eligible Basis:	\$27,782,873
130% High Cost Adjustment:	Yes
Applicable Fraction:	68.96%
Qualified Basis:	\$24,908,251
Applicable Rate:	3.25%
Total Maximum Annual Federal Credit:	\$797,028
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,000,000
Investor/Consultant:	Red Stone Equity Partners
Federal Tax Credit Factor:	\$0.95000

Per Regulation Section 10327(c)(6), the “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$27,782,873
Actual Eligible Basis:	\$27,782,873
Unadjusted Threshold Basis Limit:	\$23,697,038
Total Adjusted Threshold Basis Limit:	\$47,221,368

Adjustments to Basis Limit

Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels

Local Development Impact Fees

95% of Upper Floor Units are Elevator-Serviced

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 78%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 38%

Cost Analysis and Line Item Review

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitations. Annual operating expenses exceed the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.25% of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Special Issues/Other Significant Information:

This is a mixed-income project with 56 affordable tax-credit qualified units, and 22 market rate units.

Local Reviewing Agency

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

Recommendation

Staff recommends that the Committee make a preliminary reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal Tax Credits/Annual
\$797,028

State Tax Credits/Total
\$0

Standard Conditions

If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit Allocation Committee's next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a reservation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

Additional Conditions: N/A